

BASIS OF BUDGETING

The Village's budget process is governed by the provisions of the Budget Act as provided for in Illinois State Statutes (65 ILCS 5/8-2-9.1 to 9.11). The financial portion of the Legal Budget for the Village of Barrington is presented in three parts starting with the Revenue Estimate by Fund on Pages 255-263, continuing with the Expenditure Budget by Fund on Pages 264-275, and ending with the Summary of Transfers by Fund on Page 276. The revenue estimate for all accounting funds is presented on an account level basis (*i.e., each individual revenue source is presented in the Estimate*). The revenue estimate is organized by accounting fund, then by revenue source grouping (*i.e., Property Taxes*), and then by individual revenue source (*i.e., General Corporate Property Tax*).

The expenditure budget is established, authorized, and presented at the sub-class level for all accounting funds. The Village defines the sub-class level of expenditures as an interrelated grouping of individual expenditure accounts (*i.e., the Professional Development sub-class is an interrelated group of accounts that includes Training, Expense Reimbursement, Membership Dues, Subscriptions, and Tuition Reimbursement*). Establishment of the expenditure budget at the sub-class level provides departments with greater flexibility in meeting operational needs. Accounting for expenditures at the sub-class level also provides the Village Board with better information about transfers between major sub-classes versus transfers between related line items within a sub-class. The expenditure budget is organized by accounting fund, then department, then division, and finally sub-class.

Transfers from one accounting fund to another are presented at the account level (*i.e., each individual transfer from one fund to another is displayed*). Transfers are organized by accounting fund, transfers in or transfers out, and then transfer account.

To enhance the reader's understanding of the Village's budget, the Legal Budget is presented in several formats throughout the document. These formats include the Financial Summary Tables beginning on Page 90; the Fund Summaries which begin on Page 98 and include tables that summarize the revenues, expenditures, transfers, and changes in fund balance or net assets for each fund; Department budget sections which begin on Page 140 and include tables that summarize budgeted expenditures and funding sources for each Department; and Division summaries which are included in each Department section and include tables that summarize budgeted expenditures for each Division. The presentation of expenditures for each budgetary unit (*please review the Guide to Using the Budget Document on Page 22 or the Glossary on Pages 320-324 for an explanation of a budgetary unit*) is reflected on a gross budgetary basis. This means that included within each operating unit are all costs, including all benefits and interfund charges related to that unit. In order to associate costs with services, expenditures for pensions and other fringe benefits are budgeted by unit percentage and allocated to the appropriate department.

The revenues, expenditures, and transfers for the Village's Governmental Funds (*General Fund, Capital Improvement Fund, Tax Increment Financing Fund, and Debt Service Fund*) in the Legal Budget and in all table presentations of the Legal Budget, are prepared on a modified accrual basis consistent with Generally Accepted Accounting Principals (GAAP). The revenues, expenditures, and transfers for the Village's Enterprise Funds, Internal Service Funds, and Pension Trust Funds in the Legal Budget and in all table presentations of the Legal Budget, are prepared according to full accrual accounting principals consistent with GAAP.

The modified accrual form of accounting is a change in measurement focus from the full accrual form of accounting. Under modified accrual accounting, revenues are recognized when measurable and available and expenditures are recognized when the related fund liability is incurred (*i.e., upon issuance of a purchase order*). Under full accrual accounting, revenues are recognized in the accounting period in which they are

earned while expenses are recognized in the period they are incurred. There are a few instances in which the Village's budget deviates from GAAP. These include:

- For all accounting funds, compensated absences, which are not recognized in the Legal Budget, are accrued under GAAP and reported in the Village's Comprehensive Annual Financial Report as a long-term liability.
- The budget document does not convert all funds to a Village wide Statement of Net Assets and Statement of Activities (and the accompanying Reconciliations) as required under GASB Statement Number 34.
- Budgetary Enterprise Fund deviations from GAAP include, a) recognizing capital outlays and debt financing as expenditures and revenues respectively, rather than adjusting the appropriate balance sheet accounts in accordance with GAAP, and b) depreciation is not included in the budget even though it is recorded as an expense under GAAP.
 - These deviations from GAAP necessitate differences in how Actual and Budget columns are presented in summary tables for Enterprise, Internal Service, and Fiduciary Funds. The 2002 and 2003 Actual and the 2004 Projected columns in summary tables are presented on an audited basis which is consistent with GAAP accounting standards. Capital Expenditures in these columns are capitalized (*and therefore do not show up as an expense*) and reflected as an increase in the Invested in Capital Assets portion of Fund Net Assets. Depreciation in these columns is presented as an expense in accordance with GAAP. The 2004, 2005, and 2006 Budget columns are presented on a basis consistent with legal budget requirements which require that all expenses are appropriated by the Village Board in the Expenditure Budget. Therefore capital expenses are reflected in these columns and depreciation expense is not.

The Village's accounting system is maintained on a basis consistent with the adopted budget. This enables departments to monitor their budget by utilizing the inquiry functions of the financial software system. At the end of each fiscal year, the Village undertakes appropriate adjustments to bring the accounting system of the Village in line with GAAP (including the requirements of GASB Statement Number 34). These adjustments allow the Village to convert its financial structure from the budget format to a format that is appropriate for meeting the requirements of financial reporting required in the Comprehensive Annual Financial Report (CAFR). All year-end adjustments are carefully reviewed by the Village's outside auditor to ensure their propriety.